

## THE FALL-OUT FROM THE WAR IN THE UKRAINE IS GLOBAL.

*It is probable that the US, in cornering Russia, anticipated that any resulting military conflict and its effects would be regionalized, that is, the main economic repercussions would be localized to Europe. Once again, the doddering US imperialism has miscalculated. The effects of this war are global, dislocating the world economy and destabilizing entire nations. And it will rebound on the ailing US economy itself.*

First there were forecasts, then trendcasts and now only downcasts. Goldman Sachs is to optimism, what the US government is to consistency - mostly off course. On Thursday night Goldman Sachs provided its current downcast. US GDP growth for the first quarter was revised down from 1.0% to 0.5% and Q2 was revised down from 2.5% to 1.5%. I won't bother with Q3 & Q4 as currently more than 6 months out is covered in haze.

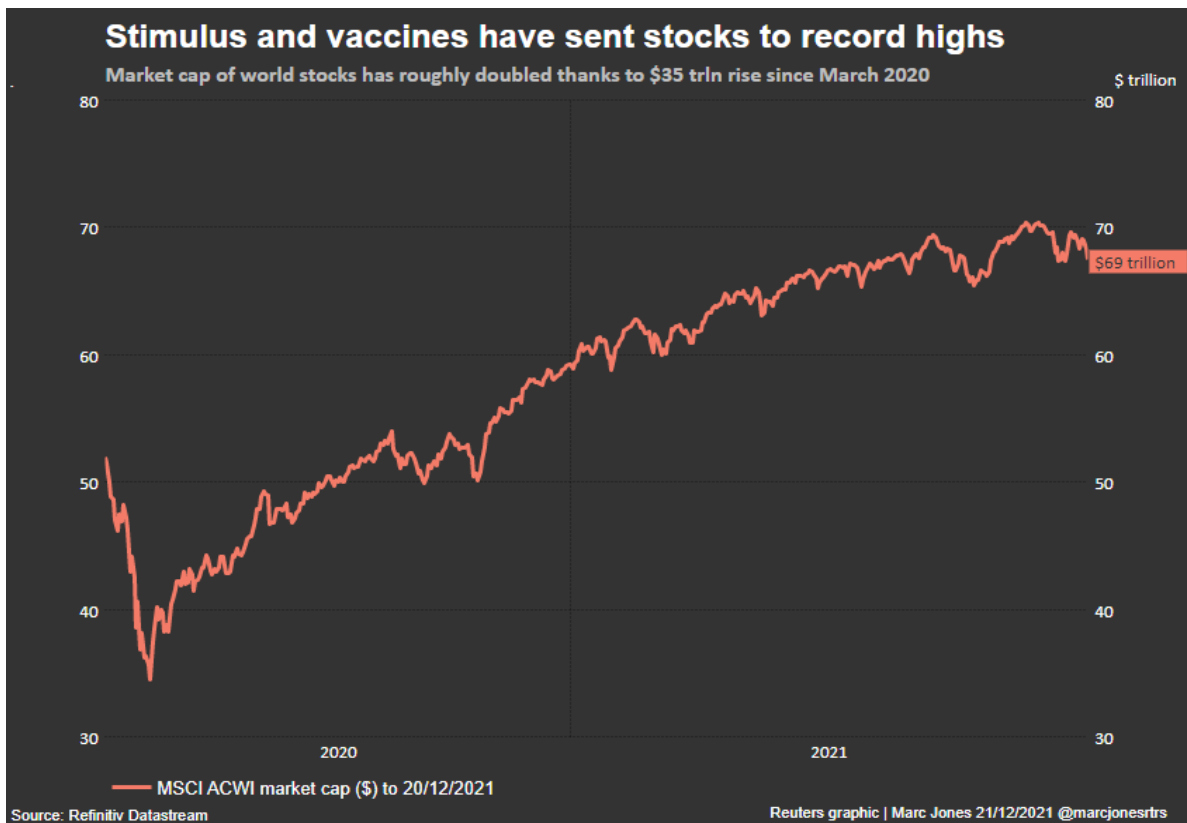
The main reason for the revision is the Ukrainian war and its impact on consumer spending. But GS takes a one-sided view of consumer spending. It factors only the loss of spending power caused by higher inflation resulting from the war. It does not factor in the loss of spending from the collapse in share prices, something which is of concern to JP Morgan. The rise in inequality has amplified the fall in markets given the concentration of wealth in the hands of the few. The graph below shows the fall in the Nasdaq since its November high. YTD it is currently down 19% from its recent high but still 13% above trend, implying a potential loss of 30% at the very least.

Graph 1.



Taking a global view, Graph 2 expresses the value of the MSCI global index. It is currently down 12% YTD or by \$8.4 trillion, having risen by \$20 trillion during the pandemic. Thus, the YTD losses are approaching 50% of the pandemic gains. However, this index represents only 60% of the global value of listed shares <https://data.worldbank.org/indicator/CM.MKT.LCAP.CD> Extrapolating from the MSCI data, it is likely that the fall in global share prices YTD already exceeds \$10 trillion because the omitted shares comprise smaller and more vulnerable companies.

**Graph 2.**

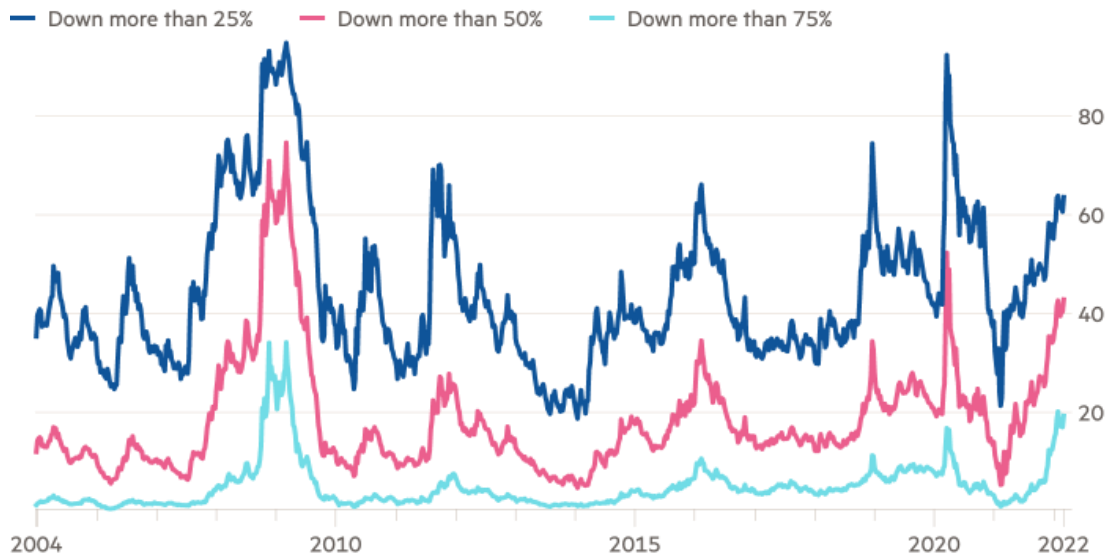


At its height in November, the top 6 US corporations listed by market capitalization (Apple, Microsoft, Alphabet, Amazon, Meta and Tesla or MAMATA) at around \$11 trillion, represented 10% of the value of all shares globally. Their very financial bulk tended to block out the movement of share prices for smaller companies particularly in the tech sphere. *“Almost two-thirds of the Nasdaq’s 3,000 plus members have fallen by at least 25 per cent from their 52-week highs, according to numbers from Société Générale’s Andrew Laphorne. Almost 43 per cent have lost more than half their value, and nearly a fifth have tumbled over 75 per cent — the worst such ratio since the financial crisis. The \$5.15tn that has evaporated from the Nasdaq in recent weeks is like the entire UK stock market going “poof”.* This can be seen graphically in the graph below also taken from the Financial Times’ article, which includes data going back to the dotcom bubble and crash for comparison. But as Robin Wigglesworth, the author of this Financial Times article says, *“This is not yet another dotcom bust and it may never become one. But the scale of wealth destruction is already enormous. The wider reverberations are still unknowable, and could be significant.”* <https://www.ft.com/content/74171839-0892-4270-b4b4-abea037ea0c4>

Graph 3.

### The 'tech wreck' has been extensive

By percentage of Nasdaq Composite.



Source: Société Générale  
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### Its food prices stupid.

Russia and the Ukraine are key suppliers of food to the world market. This is particularly true for wheat where together they supply one quarter of all exports. Wheat is the second largest crop after corn (much of which goes on animal feed). After Russia invaded the Ukraine wheat futures soared by 50%. Since then, prices have retreated by 10%. A jump in forward prices of 40% for the main ingredient of bread is the equivalent of nutritional dynamite. Revolutions are sparked by the price of bread. Already there has been food riots in Iraq.

And it is not only the price of wheat. As traders scramble to replace or substitute for wheat, other grain prices are driven up. And not only grains, but processed foods as well. The Ukraine is the largest exporter of sunflower oil. Together, Russia and the Ukraine command 69% of all global sunflower and safflower oil exports. Consequently, Indonesia, another vegetable oil exporter, has banned all exports to try and moderate price rises in its own market due to unrest.

Currently the main drivers of inflation for the poor are energy prices and food prices. At current rates, these increase in prices will kill more of the world's impoverished billions than the pandemic ever could. But unlike the pandemic, the starving millions will not suffer in silence. The US has unwittingly unleashed food riots. Biden makes an unlikely recruiting sergeant major.

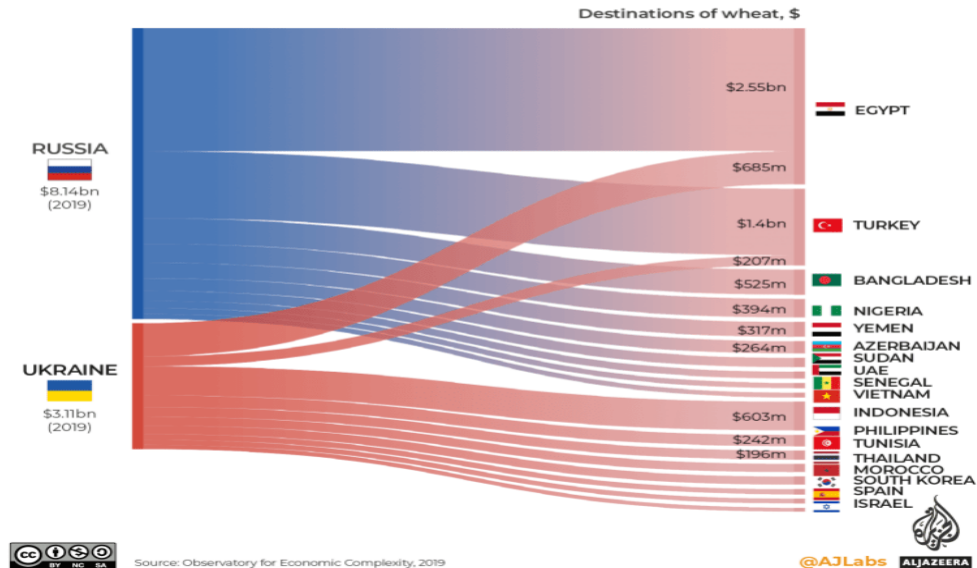
The two graphs below detail Russian and Ukrainian food exports as well as the range of Russian exports. What is noteworthy are the food importing countries, some of the most food vulnerable nations on earth such as Egypt. Instead of an Arab Spring, anticipate a Global Spring.

Graph 4.

## TRADE

### Who buys Russian and Ukrainian wheat?

A quarter of the world's wheat exports came from Russia and Ukraine in 2019.

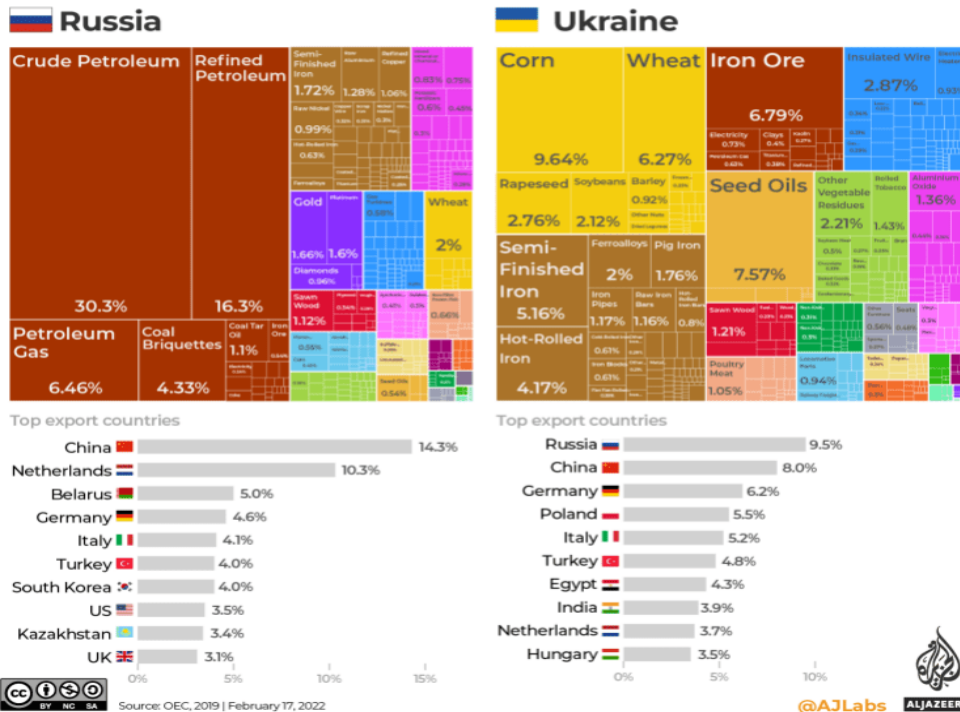


Graph 5.

## TRADE

### Russia and Ukraine's main exports

Russia exported \$407bn in products and Ukraine \$49.5bn in 2019.



<https://www.aljazeera.com/news/2022/2/17/infographic-russia-ukraine-and-the-global-wheat-supply-interactive>

## **Capitalism threatens society and the planet.**

The war in Ukraine and the disruption of exports shows how interdependent the world economy has become. The division of labour is global. The world economy can no longer afford capitalism and its bastard child, nationalism because of the disruptions they generate.

No doubt the motivation of the USA was in part narrow economic self-interest. Firstly, taking out Russian gas and grain exports immediately benefited US shale producers and farmers. Secondly, by forcing the EU to depend on US LNG exports, dependency on the USA replaces Russian dependency but at prices higher than before. Finally, a weakened Russia leaves China more exposed.

However, the gains to the USA economy can be measured in cents while the losses to the overall economy are measured in dollars. A typical 2% daily fall in US stock markets, on paper at least, overwhelms the yearly profit the economy will derive from any additional exports. The choices made therefore seem irrational. And they do, but only when we adopt the short termism characteristic of Wall Street. Uncharacteristically, here we have a case of long termism, the knowledge that if China wins the technological race, the Dollar will become just another currency leading to the loss of the financial heft a reserve currency provides, and the USA will be relegated to a second-rate economy even a failed state given the tensions already in evidence which gave rise to Trump.

The stakes could not be higher. The USA is fighting for its' hegemonic life. This is the perspective before us which is why it is permissible to invoke comparisons to the First World War. This comparison not only looks correct, it even tastes correct. The clamping down on dissent in the West is unprecedented. NATO'S stature has been elevated to that of God whose name may not be taken in vain and whose true nature may not be revealed. The censorship of information coupled to the flood of disinformation which ranges from flat tyres on stalled convoys, to mythical air aces, to the callous bombing of hospitals, is total. The peace movement in turn has become chauvinistic, commandeered by those who would jeer Putin and cheer NATO. All that is left is to jingoistically celebrate soldiers embarking on steam trains to the front.

The true internationalist, and a true anti-war campaigner can only be an internationalist, has been marginalized. Putin has been portrayed as the modern-day Hitler, just as in time will be Xi. The West may claim to have a free press, but as events in the Ukraine have shown, truth is towed behind the capitalist class in the same manner as an artillery piece is towed behind a truck, its wheels may be free to rotate but its direction is set by the truck.

And finally, the fog of war has obscured the shimmer of global warming. In late February the IPCC issued its draft 6<sup>th</sup> report titled ***Climate Change 2022: Impacts, Adaptation and Vulnerability***. Here are some of its key findings (my emphases):

***“TS.B.2.2 Some extreme events have already emerged which exceeded projected global mean warming 31 conditions for 2100, leading to abrupt changes in marine and terrestrial ecosystems (high confidence).***

***TS.B.2.3 Climate-related extremes have affected the productivity of agricultural, forestry and fishery 42 sectors (high confidence). Droughts, floods, wildfires and marine heatwaves contribute***

*to reduced food availability and increased food prices, threatening food security, nutrition, and livelihoods of millions of people across regions (high confidence).*

***TS.B.3** Climate change is already stressing food and forestry systems, with negative consequences for 17 livelihoods, food security and nutrition of hundreds of millions of people, especially in low and mid-latitudes (high confidence). The global food system is failing to address food insecurity and 19 malnutrition in an environmentally sustainable way*

**TS.B.3.3** Climate-related extremes have affected the productivity of all agricultural and fishery sectors, with negative consequences for food security and livelihoods (high confidence).”  
<https://www.ipcc.ch/report/ar6/wg2/>

Capitalism is damned by its own hand. Provoking war so soon after a pandemic and in the face of the global climate emergency, shows that humanity has only one enemy and that is the capitalist. Here lies the real threat. War proves over and over again that this monster cannot be weaned off profit, that it is consumed by this addiction, whose scale now threatens our very world.

We need to turn the war in Ukraine into a war against capitalism. To recognize our capitalists are just as worst as the capitalists on the other side. It is time for workers to emerge from their hardened and constrictive national chrysalises and unfold their internationalist wings. Should this metamorphosis not occur, then our species may fail, because capitalism is not so much inhuman as anti-human, blocking the future.

### **Conclusion.**

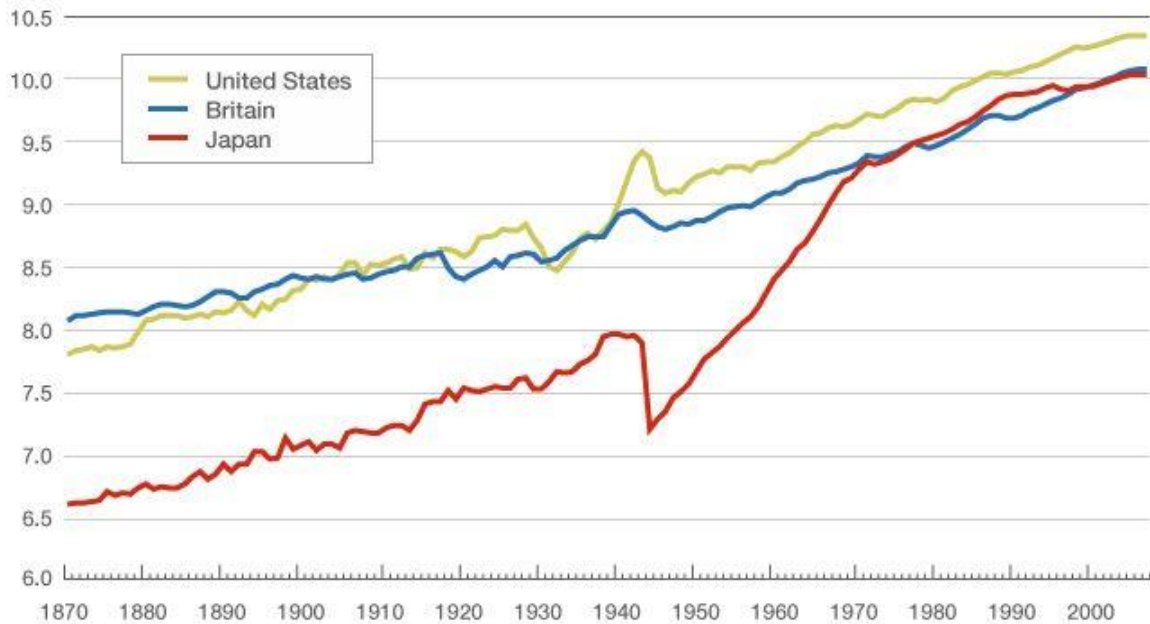
With each passing day the risk of a global recession increases. Despite the rise in the markets at every hint of a ceasefire, this provides only a temporary analgesic effect. Even if a ceasefire arrives, even if the Ukraine conceded to Russia's three demands – demilitarization, a constitutional clause preventing the Ukraine joining any block, and thirdly, Kyiv recognizing the autonomy of the breakaway regions and the independence of the Crimea – the sanctions on Russia will endure. Even if Russian wins militarily, the price it will pay is ongoing sanctions which could cripple its economy and hobble the world economy. And this on top of climate induced crop failures.

Since the end of 2015 capitalism has been on palliative care or what is the same thing cheap money. But monetary conditions, even before the pending rate rises, are currently tighter than at any time in the last decade. It is not only Ukrainians who are in the firing line, it is all the financial excesses built up over this time as well

We are facing an economic depression for the first time since the 1930s. It is worth noting that an economic depression destroys more wealth and productive potential than does a war. This is the experience of Japan. During the 2<sup>nd</sup> World War, the USAF virtually flattened and burnt the country. This can be seen in the Graph below. And yet given this scale of destruction, the “Japanese slump” in the last century which lasted from 1990 to 2002 led to an even larger loss in aggregate GDP.

Graph 6.

Growth in Real Per Capita GDP in Japan, Britain, and the US, 1870–2008  
(Natural log of per capita GDP in 1990 international Geary-Khamis dollars)



Source: The Maddison-Project  
(<http://www.gdc.net/maddison/maddison-project/home.htm>, 2013 version).

nippon.com

We are now facing the worst of all worlds, both depression and war. Unless workers step in and up, we will lose much of our inheritance needlessly, not to mention, the tragic and irreplaceable loss of lives.

Brian Green, 11<sup>th</sup> March 2022.